

Greed Is the Witch

MICHAEL O'SHAUGHNESSY

To arouse business men to a sense of their responsibility is the purpose of this thoughtful paper. Its author is editor of O'Shaughnessy's Oil Bulletin and author of "Oil Tariff and World Zoning." Reprinted from the Commonwealth, November 4, 1932.

STATESMEN, economists and industrial leaders everywhere are groping in the dark for causes of, and remedies for, the world-wide business depression. The most commonly accepted "cause" is overproduction. But by its very nature, overproduction is an effect, not a cause. It is clear that before a remedy can be found for the present and recurring periods of business depression, the cause of overproduction must be definitely determined. And what is it? Avarice—which is defined by Webster as "excessive or inordinate desire of gain, covetousness"; which in turn is defined as "excessive desire for what belongs to another."

All wealth comes from the earth. The excessive desire for wealth results in a greater production of the products of the earth than the world can consume. As potential supply in the world, is now constituted, is greater than demand, a universal scramble for wealth ensues, through trade selfishness, unfair competition, etc., which results in social and industrial injustice.

The desire for gain in the individual is legitimate to the extent of all obtaining financial independence for themselves and for their families, in their station in life, but becomes avarice when huge fortunes are amassed by a comparative few at the expense of others. Notwithstanding the fact that the lot of the average citizen in the United States today is better than in any country in the world, and in any of all history, we are a nation of hundreds of millionaires and millions of citizens that cannot earn a decent living. Human labor is still considered a commodity, the market for which is controlled by money. As the world is now consti-

tuted, not only is it impossible for the masses of human beings to attain financial independence, but vast hordes everywhere are unable to make a decent living. In all countries, money has accumulated in the hands of so few that the buying power of the great mass of the population is not sufficient to consume the production of the overdeveloped capacity of industries producing the necessities of life. The result is that commodity prices are below the cost of production and both money and labor are unemployed.

On May 26, Under Secretary of the Treasury Mills made the statement that in the United States, in 1929, out of a total population of 120,000,000, there were only 2,500,000 individuals and about 250,000 corporations that paid an income tax; 380,000 paid 97 per cent of the total amount received from individual taxes; 504,000 individuals had an income over \$1,000,000.

In a compilation by the *Business Week* it is shown that 92 banking organizations, comprising 3 per cent of the banks in the United States, control 42 per cent of the total banking resources, reported by the Controller of the Currency, June 30, 1930.

An article in the *American Economic Review* for March, 1931, estimates that 200 corporations control between 35 and 45 per cent of the business wealth of the United States (excluding from business wealth "that of the government, agriculture and professions"). It also shows that these 200 corporations, with less than 2,000 directors, during recent years have shown a rate of growth, three times as fast as 300,000 smaller corporations, and that if this rate of growth is maintained, these 200 corporations, in twenty years, will own half the entire national wealth of the United States.

Money has ceased to be a medium for the exchange of commodities and services, and in its great accumulation in few hands, dominates all human activities. The situation has developed that the possessors of great wealth, as well as the masses who have nothing, are both the victims of the tyranny of money over human beings. Laws designed to protect the masses and to secure a better distribution of wealth and opportunity have been powerless to stop the gravitation of money toward the points of greatest accumulation.

The basis of our industrial structure is popularly sup-

posed to be the reward of personal initiative. This right of freedom of action by the individual involves the corresponding duty to use it for the good of all. The fact that business in the United States in the last seventy-five years has fluctuated between some twenty odd peaks of prosperity and depths of depression, indicates that the comparatively few have not rendered to the masses service in the way of leadership, commensurate with their disproportionate reward of the right of personal initiative. Never before in the history of the United States has business, big and little, so generally acknowledged its inability to conduct its affairs honestly and fairly. This paradox of claiming personal initiative, while running to the government for laws to control personal conduct, is a phenomenon until recently unknown in this country. The application of private initiative in this machinery age of mass production and concentration of money in few hands, has resulted in a disproportionate distribution of the rewards and benefits. The concentration of money in comparatively few great corporations, controlled by an infinitesimal few, enormously rich individuals, and the extraordinary development of machine mass production has resulted in an alarming reduction in the demand for human labor and in the restriction of opportunity. A substantial number of citizens owning stock in these great corporations constitute a sort of middle-class, content to perpetuate control by the overlords and entirely indifferent to the welfare of the great mass of citizens.

Machines must serve and not destroy human beings. Labor displaced by machinery that cannot be absorbed in new industries created by it, will probably have to be provided with an opportunity to earn a living by shorter hours for all labor. The increased cost of manufactures resulting from such a solution will, by the nature of the problem, have to be borne by capital in a reduced earning-power of money, not, as represented, in inflated corporation capitalization, but on the actual amount of money employed in industry. In considering an equitable relation between wages for money and human labor, the basis must be actual money employed and not its fictitious earning-power. Passing on this increased cost to consumers would simply continue, and even aggravate, the present deadlock.

A redistribution of wealth will probably be attempted

in the United States by increasing the income taxes in the higher brackets, on the theory that increased taxes, direct or indirect, on those that have little or nothing will not increase revenues and will further curtail the buying-power of the masses. Other means indicated by the trend of public opinion, are, by increasing inheritance taxes, and perhaps by abolishing tax-exempt securities. The resulting increased national revenues are likely to be distributed among the masses through old-age pensions, employment and health insurance, prosecution of public works on a grand scale, and other forms of state Socialism.

This is no new situation in the history of the world. The social injustice involved in it has been continuous. The fact is as stated before, that a better distribution of wealth exists today than at any time heretofore, and especially is this the case in the United States; but this very fact makes a solution of the problem more urgent. It also holds out the hope of a more orderly adjustment than in previous popular upheavals against social injustice, but the masses, particularly in the United States, have tasted some of the sweets of comfort and even luxury, the continued possession of which is threatened. They may be indifferent to their civic rights and duties, but not to comforts and pleasures.

A concomitant of wealth accumulated in too few hands is excessive and widespread debt, which has always been the irritant that starts mass action for relief from social injustice. It is estimated that in the United States, debts, governmental, corporate and individual, amounted, in 1929, to about \$153,000,000,000, which is over one-half of all the value of the property of the country, \$350,000,000,000. Since 1929, property values have declined very substantially, while the liquidating figure of debts has increased in indirect ratio through the corresponding appreciation in the value of gold. It is entirely possible that interest and amortization charges on this debt represent an amount in excess of the possible profit in the production of the necessities of life, that can be purchased by the people with their buying-power restricted by the concentration of wealth in so few hands. The relation of debt to the distribution of wealth and purchasing-power of the masses is more unfavorable in all other countries of the world than in the United States.

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airplane and radio has so vastly improved that it is difficult to suppress or color facts, and to obstruct the dissemination of ideas. Again, new political ideas, particularly in Russia and Italy, are being worked out on a grand scale. Russia, alone among the countries of the earth, has no unemployment problem. Rich and poor, high and low, everywhere are bewildered, apprehensive and discontented. All are conscious that things are not as they should be.

Humanity's problem today is that of all ages since the beginning of recorded history, the struggle to control avarice. After nineteen centuries of Christianity, the comparative few that possess wealth find it impossible to realize their true destiny of being trustees under God for the great masses of humanity that have nothing. It must be kept in mind that all the excessively rich are not avaricious, and that countless numbers of the moderately well-off and poor are infected with the poison. Hatred of the rich is but a form of idolatry of money. The more equitable distribution of wealth is a problem to be solved by the privileged few.

The desire for gain in corporations is legitimate to the extent of their providing steady employment for labor at fair wages, serving the public efficiently and paying their stockholders a fair return on the actual money invested in the business and not on capitalization based on fictitious earning-power. They are guilty of avarice when they underpay or underemploy labor, overcharge or cheat the public, take business from or destroy rivals by unfair competition, and when they accumulate wealth in excess of the legitimate requirements of their business, and for domination, social, industrial or political.

The desire for gain in nations is legitimate to the extent of each insuring equality of opportunity to all its citizens in their legitimate efforts to acquire wealth, but they are guilty of avarice when they attempt to enrich their own citizens at the expense of other peoples.

Largely as a result of the World War over 60 per cent of the gold money held by all governments and their central banks has accumulated in the United States and France. In round figures \$5,000,000,000 in the United States and \$2,500,000,000 in France, out of a total of about \$11,250,000,000 for the world. Money gravitates internationally toward the points of greatest accumulation, and money so ac-

cumulated becomes frozen, so as to speak, in the hands of the countries possessing it. It seems impossible to stop the flow of gold toward the United States and France, or to effect a redistribution among other countries whose gold reserves have become impaired. This vicious circle is contracting so rapidly as to threaten to strangle the financial world: the gold hoarded in France and the United States ceases to be of practical use to the countries possessing it and becomes a menace to the financial existence of countries who vitally need it.

Not only does the United States possess nearly half of the liquid gold money capital of the world, but certain European nations owe the United States about \$11,500,000,000, which, generally speaking, represents goods purchased by the Allies during the war, and destroyed in the conduct of that struggle. The interest and principal on this debt is payable in gold. The debtor nations, with a present insufficiency of gold to conduct their international trade, can only pay the interest and principal of their debt by a profit over the cost of production, of their exportable surpluses of goods, over and above their home requirements. Commodity prices are below the 1913 level, but corporation productive capacity and capitalization are about double that of the pre-war year. A difficult situation, this, to liquidate.

In such a situation, the United States built its tariff wall higher to prevent other nations from selling their exportable surpluses on this market. Most other nations have done likewise, so that international commerce throughout the world has become almost impossible, and payment of inter-governmental debts perhaps impossible.

Some correctives appear to be imminent. Inter-governmental debts are likely to be scaled down to a point where the debtors at least can pay the service charges on them without endangering their industrial existence. Some adjustment of international private debts may be necessary. Lower tariffs are likely to become recognized as indispensable to revive international commerce. The abandonment of the gold standard by Great Britain, likely to be followed by all nations except the United States and France, is but the acknowledgment of the fact that the gold hoard of these two countries threatens the industrial and financial life of the rest of the world. A conspicuous example, this, of inter-

national avarice overreaching itself. A reversion to a barter basis between nations in international commerce, exemplified in the wheat-coffee transaction between the United States and Brazil, is a step backward to primitive methods.

And it is to such a pass that avarice has brought mankind. The world is suffering from overproduction and underconsumption, and the cause of both is avarice. A staggering surplus of all the necessities of life exists throughout the world and countless hordes of human beings are on the verge of starvation.

Avarice cannot be controlled by law or any other artificial expedient. A tragic element in the chaos that has overtaken the financial and industrial world is that men have lost faith in their ability to curb their greed and to be fair to one another in the conduct of the world's business. In such a state of moral bankruptcy they seek laws to force them to do what they can only do for themselves. But the effectiveness of law depends upon the personal moral responsibility of the citizen to obey it. No force of government can compel its citizens, devoid of moral responsibility, who have lost faith in themselves and others, to obey its laws.

Avarice is a moral cancer that is eating away the vitals of mankind. Its ravages can be curbed only by human beings practising self-restraint and doing to others as they would be done by. This may, as many contend, involve a change in human nature, but it is easier to change human nature to the extent of making men fair and honest in business than it is to force them to be so by law. The one is at least possible. The other, utterly impossible. If we are to preserve civilization, mass machinery production and distribution and money must be opposed by a strenuous and universal effort to attain moral responsibility in the individual. Not philanthropy but clarity, not legality but justice. A moral awakening is the one thing most necessary.

If a fraction of the effort was expended in arousing business men to a sense of their moral responsibility that is spent in devising artificial compulsions to make them fair and honest in business, the present unsurmountable obstacle in most of the problems of the world would be removed.

Catholics, unlike other Christian brethren, have been blessed by Almighty God with a definite moral code, interpreted and enforced by an infallible authority, which

applies with equal force to the social and business relations among men, as well as in spiritual matters. This blessing implies a corresponding duty that Catholic laymen, leaders in finance and industry, use their brains and resources to battle manfully against avarice to establish Christian principles in the conduct of the world's business. If a baker's dozen of outstanding Catholic industrial and financial leaders could be induced to organize and finance such a movement, they might easily be the lump that would leaven the whole mass and do the country a service of inestimable value. This would, of course, require money. Can any money be found to fight avarice and save the world?

Stabilization of Industry

MICHAEL O'SHAUGHNESSY

After again reviewing the situation with frequent quotations from the previous article, the author here presents a program of reorganization based on the Pope's Encyclical. Copyrighted, 1932.

THE worldwide business depression has produced two clearly defined effects on the leaders of finance and industry as disclosed by their public utterances:

- (a) A fatalistic confidence that the world will come out of this crisis without human direction and back to prosperity as it has in the past;
- (b) Reliance in the efficacy of artificial temporary expedients to cure fundamental economic and social disorders.

All have ignored the moral aspects of the problems presented, an infinitesimal few acknowledge the injustice inherent in the present social order and in consequence, all wander in darkness, trying to justify solutions agreeable to their personal interest. All agree with alarming unanimity that men are hopelessly greedy and selfish, cannot control themselves and can only be made fair and honest in their business relations by law.

Measures being adopted to correct fundamental industrial and social dislocation, ignore fundamental causes and temporize in attempting to apply fallacious, temporary and artificial expedients as follows:

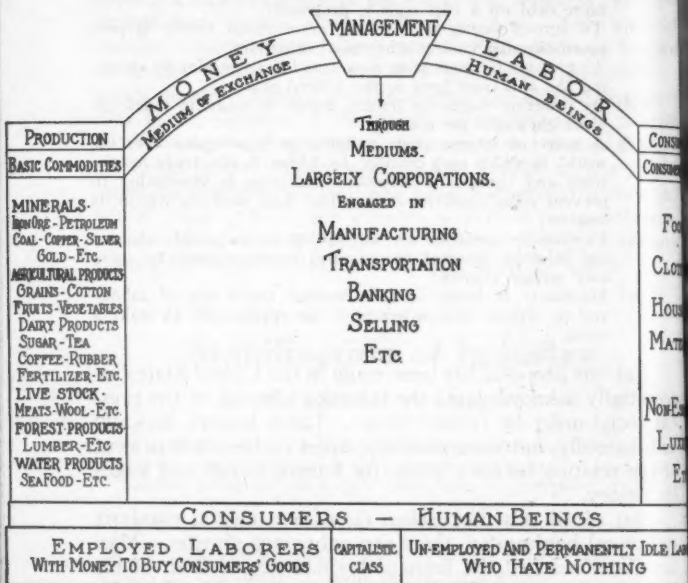
- (a) To cure a world already hopelessly over-burdened with debt, more debt on a vast scale is proposed;
- (b) To cure a money-mad world, more cheap money is proposed through various schemes of inflation;
- (c) To give big business more power and less restraint by changing the anti-trust laws in the United States;
- (d) By lowering wages for human beings to maintain indefensibly high wages for money;
- (e) A wave of intense trade nationalism is sweeping over the world, in which each country, by higher tariffs, trade restrictions and control of monetary exchange, is attempting to prevent other countries from selling their products within its borders;
- (f) Capitalistic countries are attempting to perpetuate the social injustice inherent in universal unemployment by doles and private charity;
- (g) Machinery is being used to increase the wages of money and to deprive human beings of the opportunity to make a living.

But one proposal has been made in the United States inferentially acknowledging the injustice inherent in the present social order by Gerard Swope. Labor leaders, logically and doggedly, but unsuccessfully, insist on the readjustment of the relation between wages for human beings and wages for money.

Out of all this purposeless discussion, mental paralysis and moral bankruptcy, there can only come disaster. Man has about reached the limit of his defiance of God, of his idolatry of money. He is morally unprepared to face the demands of justice and he cannot pull himself out of this mire by his boot-straps. A speedy return to Christian principles and practices in society and business is the only hope.

It may help in considering the above makeshift proposals to perpetuate the power of money to dominate the destinies of human beings to have a look at human relations as they really are. A study of the accompanying chart will be helpful.¹

¹This chart and the seven paragraphs following it appeared in AMERICA January 30, 1932, as an article by Mr. O'Shaughnessy entitled, "How Strong is the World's Industrial Arch?"



All human industrial activity can be described by the movement around a circle, described by the above chart: up the production column on the left, over the processing span, and down the consuming column to the human consumer. Human beings are the foundation upon which the industrial arch is built. Human beings extract the basic commodities from the earth (the left column), process these products into consumers' goods (the span), and finally consume them (the right column).

It is obvious that the human element in industry is all important. The first reason for the existence of industry is to provide human beings throughout the world with wholesome food, clothing and housing. Yet feeding, clothing and housing human beings are now being subordinated to the production of non-essential goods and to provide superfluous services. The standard of living in most of the world is be-

low a humanitarian minimum. It is the consumption end of industry rather than overproduction of basic commodities that is weakened and is unbalancing the world's industry.

By studying the above graphic chart, it can be seen that the span between production of commodities and consumption represents processing, and is made up of Money, Management, and Labor, operating through the mediums, largely corporations (manufacturing, transporting, financing, and selling), that process raw materials into consumers' goods. The non-human element here is money, which is an artificially created medium of exchange of basic raw materials and of human labor for consumers' goods; it operates to establish the reward to all of the agencies of production, processing and consumption expressed in prices. The function of corporation management is to distribute equitably the rewards between money and human labor in fixing the prices of consumers' goods. This is practically done by fixing the wages for money and the wages for human labor. Management of the corporation mediums have discriminated against human labor in fixing too high a wage for money, which has resulted in throwing excessive weight on the money segment of the arch and correspondingly weakened the human labor segment.

Human consumers of the products of industry can be divided into:

- (1) Labor permanently employed, which has money with which to buy the products of industry;
- (2) The capitalistic class that receives the wages of money;
- (3) The unemployed or constantly idle human beings that have no money with which to buy anything. This latter class probably constitutes the majority of mankind the world over.

This results in weakening the foundation under the consumption column of the arch, throwing it out of equilibrium, expressed in abnormally low consumption demand for consumers' goods. This fact, together with the excessive weight on the money segment of the span, results in throwing the production columns out of equilibrium, which is expressed in prices for basic commodities below the cost of production.

It is obvious that the efforts to buttress the arch by destroying either basic commodities or consumers' goods, by artificially restricting production, by artificial agreements to

maintain prices, etc., in order to counterbalance the excessive weight imposed on the money segment of the arch, are a futile procedure. It is obvious that the effort of management, the keystone of the arch, should be to so arrange the wages for money and the wages for labor as to strengthen the foundation of the arch by a better distribution of money among human beings with which they can purchase the products of industry.

The worldwide business depression is the result of the weakened position of the industrial arch. Unless its foundation is strengthened and the weight it carries is more evenly distributed, it is likely to collapse.

MONEY AND HUMAN BEINGS

The most commonly accepted cause by statesmen, economists and industrial leaders everywhere of the worldwide business depression is overproduction, but by its very nature, overproduction is an effect and not a cause. It is clear that before remedies can be found for the present and recurring periods of business depression, the cause of overproduction must be definitely determined. And what is it? Avarice, which is defined by Webster as "excessive or inordinate desire of gain, covetousness," which in turn is defined as "excessive desire for what belongs to another."

Money has ceased to be a medium for the exchange of commodities and services and in its great accumulation in few hands, dominates all human activities. The masses have not the wherewithal to purchase the product of the overly developed producing capacity of our industries. Laws designed to protect the masses and to secure a better distribution of wealth and opportunity have been powerless to stop the gravitation of money towards the points of greatest accumulation. The world is suffering from overproduction and under consumption and the cause of both is avarice. A staggering surplus of all the necessities of life exist throughout the world and countless humans are on the verge of starvation.

Capital is necessarily in a precarious and unstable condition when chronic unemployment exists, when the standards of living and consequent buying power of the majority of mankind is below a humanitarian minimum. The only

way to permanently stabilize capital is to stabilize employment for human beings.

In order to preserve its national existence, the first and most important duty of government is to so order the economic life of the Commonwealth as to provide every citizen with the opportunity to earn a decent living. The exact contrary prevails throughout the world. Economic slavery exists on an unprecedented scale. A slave is a human being that has lost his freedom of action to others or to a social system, if you will, in his most elemental right to keep himself alive. It is estimated that there are perhaps a hundred million human beings in the industrial countries of the world in this condition, consequently it follows that slavery exists in the social order under which all of the industrial nations are functioning.

Enlightened self interest would suggest that the comparatively few in the world who have most of the money should take the lead in establishing a social order where both capital and labor would be stabilized. Obviously, no solution can be expected from the underfed, under-clothed and poorly housed human beings, except by violent destruction of our present social order, and it should be remembered that this class is in the vast majority throughout the world. It is futile to criticize without suggesting a remedy.

A WAY OUT

With no illusion that it will establish the millennium overnight, ideal to be sure, but something to strive for, to stimulate thought and to provoke discussion and criticism, the following is suggested as a way out of the depression that has over-whelmed our country and the whole world:

A LEGISLATIVE PROPOSAL TO STABILIZE INDUSTRY AND FINANCE, TO REALIZE SOCIAL JUSTICE AND TO ABOLISH ECONOMIC SLAVERY IN THE UNITED STATES, BASED ON THE PRINCIPLES THAT:

- (a) The citizen has the right to work and is entitled to the protection of the laws in maintaining such rights and in demanding an equal share of the employment available in the trade in which he is employed;
- (b) That every citizen has the right to own property and earn a decent wage that will enable him to decently support his

family, own his own home and to provide for his descendants after his death;

- (c) That money is entitled to a fair and stabilized wage;
- (d) That prices for commodities produced by any industry should be such as to provide for fair and stabilized wages for the actual money employed in the industry and fair and stabilized wages for the human beings employed in it, and to provide a fund to be used in public improvements to give employment to the unskilled labor of human beings not regularly employed in any industry.

TO TRANSLATE THESE PRINCIPLES INTO LAW:

- (a) All units in every industry doing an interstate business and employing over fifty men and/or women, be empowered to form a trade association of all corporations or individuals that compose the industry, to accomplish the following ends:
 - (1) to contribute in cooperation with their employees, funds to provide employees with life, disability and health insurance, accident compensation, old-age pensions, equal partition of available work among workers in the industry entitled thereto;
 - (2) stabilization of production on a profitable basis;
 - (3) fixing of maximum and minimum prices for raw materials and manufactured products.
- (b) All members of such associations to employ by the year, the average number of employees engaged in the industry over the period of the preceding ten years, at wages sufficient to enable workers to realize rights enumerated above; to set aside reserve funds to provide for fair wages for money and fair and stabilized wages for human beings, based on the operations of the industry in the preceding ten years; to standardize accounting forms, cost systems, earning statements, etc., of all units in the association and to exchange such information.

The Directors of the Trade Association to be nine in number, three representing the capital invested in the industry, to be chosen by the managements of its constituent members; three representing labor employed in the industry, to be chosen by labor unions existing or to be formed of employees in such industry; and three, representing the public or consumers, to be chosen by a Federal agency from persons nominated by Associations of consumers of the products of the industry concerned.

There should be invested in a Federal agency, the right to veto any acts of the association, particularly in reference to the fixing of prices of raw materials and manufactured products, that might be against the public interest. Such veto to be subject to review by the Federal Courts.

PRICES AND EMPLOYMENT

Prices for commodities should include a charge for an equitable contribution to taxes, sufficient to provide funds to employ in public works for the good of all the people, those human beings not employed in any trade association and for the education of such unskilled workers in some trade which would eventually enable them to find employment in some or other trade association and for acquiring and cultivating farm lands.

The hours of labor should be fixed on the basis of providing work for all skilled and unskilled laborers as a wage to enable them to decently support themselves and their families and to acquire property, based on statistics of cost of living and a living wage in the preceding ten year period.

The principle here annunciated is that all the people should bear in the price they pay for commodities, the burden of sustaining the country's industries, on a basis which will enable them to attain the ends above enumerated.

COMPETITION AND WASTE

It is reasonable to expect that the elimination of destructive competition in industry through cooperation in trade associations and the lowering of the cost of producing raw materials and manufactured products would provide funds to meet all of the above ends at prices for commodities no higher than those ruling in the preceding ten year period. On this point I can speak with some authority of an industry of which I have first hand knowledge.

Glen B. Winship, in a recent issue of the *New York Times*, properly says that excessive competition in gasoline marketing is costing the industry \$455 million annually without any compensating benefit to the motoring public. He estimates that there are 216,671 retail gasoline outlets in the country, exclusive of isolated single pump outfits. 156,671 of these are service stations and he asserts that 111,594 of them or 71 per cent are unnecessary. He estimates an excess investment in distributing facilities of around a billion dollars.

The saving of this waste by eliminating destructive competition would meet all the charges indicated above with prices of gasoline no higher than at present.

The difference between the maximum and minimum prices fixed for commodities would provide a reward for individual units in industry, for skill, low cost production, superior quality and service.

All units, in a given industry would be free to join the trade associations or not, as they saw fit, but those choosing to remain out of the association, would be compelled, under heavy penalty, to abide by the maximum and minimum prices fixed by the trade associations.

The trade associations in each industry should be empowered to make agreements with associations in other industries for the purposes of stabilizing industrial activity throughout the nation and should further be empowered to deal with cartels or trade associations in other countries, looking towards the stabilization of industrial conditions throughout the world, raising the living standards in backward countries and consequently their purchasing power.

STABILIZATION

If the above program should be put in effect, it would realize social justice and abolish economic slavery.

It would:

- (1) stabilize industry in the United States and possibly throughout the world;
- (2) permanently stabilize prices for securities on their intrinsic values and permanently stabilize dividends on the capital stock of all industries based on the actual amount of money invested in them;
- (3) stabilize employment, guaranteeing all human beings an opportunity to make a decent living, a home and a provision for laborers' descendants.

I suggest for your consideration the opinion of Edmund O. Campbell on the right of the Federal Government to regulate the industry of mining coal (*Congressional Record*, January 13) as indicating the method by which the Federal Government can constitutionally impose on all industries through Federal licenses to corporations to engage in Interstate Commerce, conditions which would compel them to adopt some such program as is suggested above.

Should the United States attain permanent security, prosperity and social justice along the above lines, its example would likely bring the same blessing to all the peoples of the earth.

What Caused the Depression?

REVEREND WILFRID PARSONS, S.J.

"Now is the time for capitalism to examine its conscience," says the Editor of AMERICA. His paper was written as a follow-up on Mr. O'Shaughnessy's original contribution, was published in AMERICA, April 9, 1932, and is here reprinted in part.

THE chart and article on the Industrial Arch contributed by Michael O'Shaughnessy to the issue of *America* for January 20 occasioned comment from many, ranging from an official of a great oil company to the Socialist Mayor of Milwaukee. . . .

These causes, as sent in by readers, range all the way from the capitalist system itself, to overproduction and under-consumption; instalment buying; low wages; stock speculation; graft, corruption, extravagance, and waste in government; watered stock; short selling; German reparations and War debts; concentration of gold here and in France; decreased purchasing power; mass production; the middleman; birth control and the immigration laws resulting in fewer buyers; Prohibition; uncontrolled competition; avarice and greed. The tendency of many writers is to attribute the trouble to one or other pet cause, without seeing that it was the combination of all that caused it.

First of all, then, since the system is a human system, it must have a human, that is, a moral, motive. This motive is the profit motive. Now the profit motive is not in itself bad, and it is not impossible to hope for better things merely because that motive prevails. It is when it results in immoderate profits that it destroys itself; in other words, when the profit motive becomes avarice and greed, as Mr. O'Shaughnessy had suggested in a previous article.

This system is based on a partnership between *capital* and *labor*. If this partnership is upset by undue dominance of one or the other, we get either a group of wage slaves or a dictatorship of the proletariat. Each one brings his own contribution to the partnership, and is entitled to a wage on

that contribution, and also on the partnership itself. The partnership results in *production*, which is *distributed* in various ways to the *consumer*. These, then, are the elements of the system: Capital, labor, their partnership, production, distribution, and the consumer.

That capital in general has received too high a wage for its money is clear from the obvious maldistribution of wealth. One tenth of our population owns ninety per cent of our wealth. This process has been accelerated in ten years: in 1921 the majority owned much more of the wealth in the country. Now in very many industries the number of shares outstanding is far too great for the normal return on production; they are over-capitalized, the stocks are watered. (Electric Bond and Share, and many others, have recently admitted this when they reduced the number of shares by as much as two thirds.) Here is the first way capital receives more than its part. Since the depression, many stocks have gone on paying dividends out of surplus, a fund of money that did not belong to capital alone, since it was the result of the partnership after capital and labor had each received its individual wage, while labor has either been laid off, had wages lowered or been put on part time.

At the same time, holding company was piled on holding company, each receiving a wage out of the operating company's production, though it did not produce itself. The issuing of these holding-company stocks went on without any legal supervision and much of it was accompanied with grave loss to the investors, and even to the operating company in which labor had an interest in the partnership, as John T. Flynn has shown in "Graft in Business." This was accompanied by shady rigging of stocks on the Stock Exchange, by more or less forced distribution of them among employees who have now lost as much as seventy-five per cent of their savings, and by reprehensible extension of credit for speculation in Wall Street by corporations directly. Mr. Flynn has pointed out the common practice of directors and officials using the funds of a corporation as if they were their own, and often to their own enrichment. All of this was accompanied by unintelligible, untruthful, and inaccurate yearly corporation statements.

The last word of avarice in capitalism was uttered by bankers and brokers forming investment trusts, selling some

of the shares to the public, keeping very many of them for themselves for nothing, and then filling the trusts' portfolios with stocks they were themselves promoting and later became mostly worthless, but not until the bankers had unloaded on the public most of their own shares which they got for nothing.

Meanwhile a revolution had occurred in production. Labor-saving devices were invented, mass production came in, the belt system was introduced. The advantages of these was said to be to reduce "production costs" so that prices could be lowered, as they had to be in many industries where the competition was ferocious and the field overcrowded with factories. The reduced production costs, of course, were labor costs, because though wages were raised individually, vastly fewer were employed, and even their total personal wage was lessened, because the new machines glutted the market in three months' time, and men were laid off the rest of the year, or employed only three days a week where production was lengthened out. This was accompanied by the "speed-up" and all the other fiendish devices to increase production at a lower labor wage that go in Europe under the name of "Taylorism."

Producing industries, however, did not despair of increasing still further their plants and their production in their wild, uncurbed competition. Here is where advertising came in. Highly paid writers were brought in to induce the public to buy in greater and greater quantities. These were an absolute necessity to the system, if that system was not to slow down and then blow up of its own repressed energy. They added to the cost, too. . . .

But the buying power in money of the public was not equal to the task. Then instalment buying came, which was merely an extension of credit to the consumer. This went on as if the credit of the consumer was unlimitedly elastic, and indeed, as things were going, it had to be, or the system was doomed. As a matter of fact, that credit as a whole was contracting instead of expanding and nobody had the sense to see it. But while it lasted, it only served to attract more and more capital into production, and the costs of production and distribution were so great and the wages of labor—that is, the consumer—so much smaller in proportion, that buying power was decreasing proportionately to

production all through 1928 and 1929. With the slowed-up demand prices finally started steadily downward. But it was too late. Buying power had already been too exhausted to keep up the dance.

On top of that, three other important forces made themselves felt. One was waste, which as Stuart Chase has shown, was simply a loss to the consumer. Another was government extravagance—municipal, State, and Federal—which increased one-hundred, two-hundred, five-hundred per cent. This money came out of the consumer's pocket each year, of course, since the government has nothing but what it takes from us yearly in taxes. And the third outside factor was racketeering, that is, extortion on a vast scale exercised on nearly every industry by violence and honeycombing the labor unions, costing us a billion a year.

What, then, became of the consumer? First of all, the very number of him slowed down, and the system was based on the assumption that he would grow more and more numerous. The system had to grow and grow; that was its acquired nature, and that demanded more and richer customers. Their increase, however, actually slowed down, due to the natural sterility attendant on a high standard of living, to the propaganda for birth control, and, not least, to the almost complete stoppage of immigration. This almost stationary customer's buying power was stretched to the limit, then his credit was expanded beyond the danger point, and his income did not keep up to the increase demanded by frenzied production. Real wealth was concentrating into fewer and fewer hands. A system which was predicated on a yearly *growth* of buying power actually had taken steps to keep that buying power from growing. It destroyed itself. . . .

It is curious to reflect that the cause of it all lies in a good old word we hear very little of any more. That word is *Progress*. The system as it had evolved was based on more and more production, more and more sales, more and more profits. Not merely on production, sales, profits, in moderate and stable quantity. But on *more and more*. It had to go on increasing or blow up. It blew up. It tried to increase indefinitely in a finite world.

The motive force behind the *more and more* was, of course, avarice and greed. . . .